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April 13, 2010

Mr. Gary Collord
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: Renewable Electricity Standard Preliminary Draft Regulation(\$97004)

Dear Mr. Collord,

LS Power Associates, LLC (LS Power) is pleased to offer the following comments in response to the April 5 workshop on CARB development of the Renewable Electric Standard.

Under Section 97004 of the RES Preliminary Draft Regulation, Staff indicates that it is evaluating two options for demonstrating compliance with the RES. The first option would allow unlimited use of unbundled and undelivered RECs from in-state and out-of-state resources within WECC to meet the RES.

The second option would allow the use of “tradable” RECs consistent with the approach taken by the CPUC in D.10-03-021. The Staff is seeking feedback on the impacts that the two options will have on investments for in-state renewables and associated transmission facilities, the availability and cost of RECs and any other relevant information.

Option 2 Is Preferable For Both Environmental and Economic Reasons. Decision 10-03-021 endorses the use of “tradable” RECs (TRECs), but places certain limits on the extent to which utilities may use TRECs. In addition, Decision 10-03-021 allows the use of bundled renewable transactions (*i.e.*, renewable energy plus RECs) from eligible renewable resources which are located outside the State but which are directly connected to a California Balancing Area Authority (BAA). For example, the California Independent System Operator (CAISO) has a number of Scheduling Points on its BAA which are located outside of California and to which renewable resources and other generation facilities can be directly connected and have their energy delivered into California.

Decision 10-03-021 explicitly recognizes that there are significant environmental benefits associated with the delivery of a bundled renewable product into California. Indeed, the Decision also allows the delivery of renewable energy through the use of “dynamic scheduling” and “pseudo-tie” services of the CAISO to qualify as bundled transactions and is continuing to evaluate whether the delivery of renewable energy from out-of-state resources through the use of firm transmission arrangements also should qualify as bundled transactions.

LS Power strongly supports Option 2, subject to the caveat that Decision 10-03-021 may (and, in LS Power’s view, should) be modified to include the delivery of renewable energy to California using firm transmission as a bundled transaction.

As a developer of renewable resources both within California and in nearby states in the WECC, LS Power submits that the ability of an out-of-state renewable resource to qualify for bundled transactions to deliver energy to California will be crucial to securing the necessary financing for many new projects. Thus, by incorporating the concept of bundled transactions as outlined in Decision 10-03-021, Option 2 will enhance the development of new renewable resources and the transmission infrastructure necessary

to deliver those resources into California. The CPUC's Decision attempts to strike a reasonable balance between the use of tradable RECs and bundled transactions as a means of promoting the development of needed renewable resources (both within and outside of California) and transmission infrastructure. LS Power does not believe that a "REC-only" approach under Option 1 provides similar benefits. At the same time, LS Power submits that Decision 10-03-021 does not go far enough and must be expanded to include transactions which deliver renewable energy (and the associated RECs) to California using firm transmission as bundled transactions. The Decision provides a process by which the firm transmission issue will be studied further, and LS Power is hopeful that this process will culminate in the inclusion of transactions using firm transmission within the bundled category.

By allowing renewable projects outside of California to qualify as bundled transactions, the CPUC's approach will increase competition among renewable resources within WECC. Clearly, the greatest reduction in California emissions will occur with the delivery of renewable energy directly into the State. Greater competition among renewable resources for bundled transactions also will reduce prices in California's energy markets, and the cost of allowances in the AB32 allowance market. A REC-only approach as under Option 1 will not provide the same benefits since the result is likely to be the displacement of fossil generation in some other part of the WECC.

To the extent practicable, it makes sense that CARB and the CPUC take a consistent approach toward the use of RECs and the development of new renewable resources. The CPUC has expended several years and considerable resources in developing the policy reflected in the Decision. Nevertheless, the Decision itself indicates that there is still further work to be done with respect to including the delivery of renewable energy to California using firm transmission within the category of bundled transactions. If CARB were to take a completely different approach – such as Option 1 – market participants would be confronted with dramatically different regulatory regimes. Clearly, the IOUs and other load serving entities (LSEs) still would have to comply with Decision 10-03-021 for meeting their procurement obligations. Having two different approaches would produce widespread confusion and send conflicting signals to the marketplace in terms of developing new renewable resources.

In sum, the CPUC is continuing to evaluate the use of firm transmission for bundled transactions, and LS Power strongly supports treating those transactions as bundled transactions. Such an approach will increase the marketing options available for new renewable projects, thereby facilitating the development of such projects. For these reasons, LS Power recommends that CARB endorse Option 2 but continue to monitor developments and possible adoption of further enhancements by the CPUC.

Thank you for your consideration. We look forward to working with CARB on these issues in the coming months.

Sincerely,

A handwritten signature in black ink, reading "Lynne M. Flowers". The signature is fluid and cursive, with the first name "Lynne" being more prominent and the last name "Flowers" written in a similar style.

Lynne M. Flowers

Vice President, Legislative and Regulatory Policy